

MINUTES
Highway Expansion and Extension Loan Program

Advisory Committee Meeting
January 4, 2000

Committee Members Present:

Mary Peters
Cliff Potts
Bruce Hilby

Gary Magrino
Paul Schwartz
Jeff Martin

Others Present:

Victor Mendez, ADOT
John McGee, ADOT
Shawn Dralle, ADOT
Anna-Marie Perry, ADOT
Tim Ahrens, ADOT
Jennifer Macdonald, ADOT

John Carlson, Gov. Transportation Advisor
Ellen Damron, ADOT
Val Carrola, ADOT
Debbie Einweck, ADOT
Evamae Nye, ADOT

Call to Order

The January 4, 2000, meeting of the HELP Advisory Committee was called to order by Chair Mary Peters at approximately 1:10 p.m. A quorum was present and Mr. Martin joined the meeting at approximately 1:40 p.m. Members absent: Ms. Ryall.

Ms. Peters reported that Mr. Martin had requested that Agenda Item #4 be deferred until later in the meeting.

Mr. John Carlson, the Governor's transportation policy advisor, stated that Governor Hull is very supportive of Help funds being available to the rural areas.

Ms. Peters thanked Mr. Carlson for his comments.

Adoption of the Minutes of the November 23, 1999 Meeting

Ms. Peters called for a motion to approve the minutes of the November 23, 1999 meeting. Mr. Magrino moved for approval and Mr. Schwartz seconded the motion. Motion carried unanimously.

Staff Report

Ms. Dralle gave an overview of the draft revised HELP Application/Handbook packet. Two changes in the handbook required action by the Committee and the State Transportation Board.

Ms. Dralle reported that Committee discussed at some length having policy on small loans. The staff reviewed the statute, discussed the issue with the ADOT bond counsel, and determined that it is not necessary for this Committee to adopt a formal policy on loans less than \$5 million. The Committee and the State Transportation Board have the flexibility to do that given the way the statute is written, the application materials and the guidelines provided.

The process of forwarding the loan applications to the State Transportation Board for approval before intergovernmental agreements or repayment agreements for the loan have been negotiated was discussed with the State Transportation Board Chairman and Vice Chairman. Monthly summary reports have been developed for the State Transportation Board on the status of the HELP fund and the status of the loan applications, and it was agreed that as long as the Board is receiving monthly reports, the process of approval of the acceptance of a loan application by the Board could be eliminated, and formal action would be taken by the Board in one action item when the loan application package and agreements are in place. Ms. Dralle emphasized that it would streamline the process and give the Committee more flexibility.

The HELP status reports distributed to the Board were distributed to the Committee for their perusal. Ms. Peters suggested that it may be of value to put the reports on the Website. The Committee agreed that it would be informative.

Committee members in the past suggested having several HELP Committee meetings in locations other than Phoenix. Staff suggested that it may be possible to hold a HELP Committee meeting on a Thursday prior to the State Transportation Board Meeting on Friday. The State Transportation Board sets their dates and locations at the first Transportation Board meeting in January. An update on this issue will be reported at the HELP meeting in February.

HELP Handbook/Application Review

Interest Rate Change

Ms. Dralle reported that the procedure for setting the interest rate on loans should be refined. The original method was tied to U.S. Treasury obligations, which are taxable interest rate securities. The new method would link loan rates to the municipal interest rate rather than a taxable interest.

Ms. Peters added that it was the Department's desire to offer a favorable interest rate in the event that a community with a very high credit rating otherwise might be able to obtain a better rate on the open market. Ms. Dralle noted that over the last six months taxable interest rates were so high that even with the subsidy, a community could go to the market on its own and borrow lower than the subsidy that HELP could offer. With the municipal index, it will be always on the same level that a community could borrow only cheaper. Statute states that the Board may give interest rates at or below comparable market interest rates.

Ms. Dralle stated that the change in the application gives the Committee more flexibility.

Discussion followed.

Ms. Peters and Mr. Hilby asked if the State Treasurer would have concerns about the change.

Mr. Hilby asked for a financial comparison as to what the change may do the availability of the funds.

Mr. McGee, ADOT Chief Financial Officer, reported that the original issue was never discussed with the State Treasurer's office and the original decision was an internal decision that the State Transportation Board made, based on the desire to try to "mimic" a tax-exempt rate. He suggested that it would be good to move away from the U. S. Treasury to the Municipal index because the spread between these two indexes over the past several months has been significant.

Ms. Dralle noted that the Municipal Market index is published every day in the Bond Buyer newspaper, which is an industry trade journal and can be accessed on line. She reported that communities that borrow money from a tax-exempt bond issue are familiar as to the rate they obtain on their bonds and what is transpiring in the market on that particular date. Mr. McGee added that the index was just developed over the last two years.

It was agreed upon that loans will be made at or below an interest rate equal to municipal obligations with comparable maturity and comparable credit rating as determined by the Board.

Mr. Magrino moved to approve the change in the interest rate and Bruce Hilby seconded the motion. The vote being unanimous, the motion carried.

Time frame for the applicant to negotiate the terms of the loan to avoid placing a hold on an increment of money for an undetermined amount of time was discussed. Several options were posed, and the Committee agreed upon reviewing the applications at three months. This would give the flexibility to extend negotiations if desired.

Mr. Magrino moved that the applications will be reviewed after a three-month period with the ability to extend the negotiation period and deleting the language on the draw. Mr. Potts seconded the motion. Ms. Peters called for a vote, and the motion passed unanimously.

It was noted that staff has a loan repayment agreement master document has been approved by the Attorney General and the ADOT bond counsel. This document is being used with Chino Valley and on the Tucson loan.

Mr. Mendez stated his concerns in prolonging negotiations regarding the time and resource investment by ADOT working to reach an agreement. He stated that if people are serious, they should be willing to negotiate within a specified period of time.

The application/handbook will be on the State Transportation Board's agenda for approval on January 21, 2000.

Update Cochise County HELP Loan Application

Ms. Dralle reported that the Cochise County project is not eligible since it does not have federal aid attached to it, and does not fulfill the second part of the project eligibility definition in the statute. The project is listed as local funding in the Southeastern Arizona Governments Organization (SEAGO) Transportation Improvement Plan (TIP). Ms. Dralle also called

attention to the project definition in the statute and the impact that it might have on county projects around the state.

Ms. Dralle stated that Mr. Martin was correct at the last meeting in the interpretation of what the 50% meant in the statute. If a project is in a local transportation improvement plan (TIP) it has to get a majority of its funding from one of three sources: 1) federal aid; 2) countywide transportation excise tax; or 3) monies that go to Pima County or Maricopa County 12.6 HURF funds.

The definition disqualifies the Cochise County project and also disqualifies other certain projects around the state if they are in a local TIP that doesn't meet one of the three criteria above.

The proposed bill that Mr. Martin has contains change to the definition in the statute from the 50% requirement to a 20% requirement.

Mr. Carlson reiterated his earlier comments that Governor Hull was very supportive in capitalizing the HELP and that it was going to provide up to \$100 million in financing for rural highway projects in addition to accelerating the regional freeway system. He believed that the Governor will support any reasonable compromise on this issue to get the monies out to rural highway projects and state highway projects or reasonably significant projects.

Ms. Peters asked Mr. Martin if he had comments to add. Mr. Martin reported that the legislation does provide authority to cities to help in advancing state highway projects. He stated that this was the idea behind the SIB legislation when it was authorized two years ago. Mr. Martin stated that it also added in the legislation that they were in the TIP where a project needed to be of regional significance. He defined regional significance as the majority of the funding coming from regional funds i.e. federal funds, etc.

Mr. Magrino stated that by doing this, he believed that the Committee is second-guessing the Councils of Governments. He stated that he doesn't want to see the money "go out the door" just to spend it. He wants to see the infrastructure built throughout the state, but feels that if a project is important, if the people of that area and the Council of Government agrees, and if a project meets other statute requirements, he agrees that the project should be funded.

Mr. Martin noted that Maricopa County includes all local street projects in the TIP; so, in Maricopa County any street would then meet what is suggested. He stated that it is easy to include projects in the TIP that are not funded.

Ms. Peters clarified that the reason local projects for Maricopa County are in the TIP is because it is a non-attainment area. Any potential infrastructure improvement project has to be included. This is not the case in the rural COGs.

Mr. Hilby suggested that application wording, under economic benefits, could be changed to read "evidence that the project is creating the greatest economic benefit" indicating that the project is getting some federal funding.

Mr. Potts stated that the counties go to specific lengths not to have any federal dollars in any project, because whether it is 20% or 50%, the project becomes subject to federal guidelines; therefore, the rural communities are appreciative of the HURF exchange.

Ms. Peters stated that she would agree, at least in Maricopa County, that if we are not spending it where we can get that increment of federal dollars, she would not have any hesitancy of leaving the 50% requirement in the urbanized areas where there is that flexibility.

Discussion continued.

Mr. Martin stated that Pima County has put a number of their streets on the National Highway System and Federal Aid system. He asked how it would be dealt with in that situation. Mr. Ahrens responded that they qualify under the present law.

Mr. Martin stated he believed there is a clear majority among the Committee to make a change in the proposed legislation, but give a preference to those projects that do have federal money, but not “lock out” those who do not. Mr. Martin stated that he would work with Mr. Carlson on the language on the proposed legislation.

Ms. Peters will express the wishes of the Advisory Committee both to the State Transportation Board and the legislative committee.

Ms. Peters requested that the information be distributed to Committee members so if someone is asked to appear before the Legislative Committee, they will know when and where to do that.

Mr. Ahrens reviewed the financial status of the HELP Fund. The cash balance as of the end of November is \$55,302,000. Included was a cash flow forecast of the current projects.

Mr. McGee reported a transfer of \$20 million of state highway fund monies to the HELP fund and informed the Committee that the transfer was made that week.

Mr. Ahrens reviewed the status of the applications and reported that a new application had been received from the City of Phoenix on the last mile on the Squaw Peak connecting to the 101. The city is willing to put up some money and they would like to borrow \$25.7 million

ADOT has two projects that have been submitted, but the projects are really one stretch of road on SR 260 for \$12.1 million.

Responding to Mr. Hilby’s question on the clarification of the City of Phoenix’s request for funding, Mr. Ahrens stated that the project could be funded with the BFO monies or the return dollars from the existing loans.

These applications have not gone through the technical review at this point, but in response to the Chair’s request, the team will meet to begin the evaluations.

Ms. Peters reported that ADOT has allocated BFO funding to a list of projects for the early acquisition of right-of-way on the Maricopa County’s Regional Freeway System. Ms. Peters requested that the Committee discuss the issue of right-of-way purchases to control access on the

state system and that it be put on the agenda for a future meeting. She stated that in Pinal County and Gila County there are several facilities where the Department needs to maintain control of access if there is going to be a viable transportation system in the future.

Report on SIB Pilot States

A handout was distributed for general information. The information reports on what the ten pilot states are doing with their State Infrastructure Bank.

Call to the Public

Ms. Peters introduced Victor Mendez, ADOT Deputy Director. Mr. Mendez is Ms. Peters' Chair designee if she is not able to attend the HELP meetings.

Ms. Dralle reported that at previous meeting the Committee had discussed drafting a letter for the Board chairman's signature or Director's signature to Union Pacific about encouraging them to participate as private participation in some of the project, particularly on the Tucson project. This issue was discussed with the Director, who had discussed the issue with the Board Chairman. Because of other possible negotiations, it was felt that the timing would not be appropriate at this time.

Future Agenda and Next Meeting

Ms. Dralle stated that she hoped she would have information on meeting locations and follow up.

Adjournment

Ms. Peters thanked the Committee and the meeting adjourned at 3 p.m.